BUSINESS INC. CO.
CORPORATION FILE

GRAY DRUG STORES, INC.

ANNUAL REPORT TO SHAREHOLDERS...

FOR THE YEAR ENDED JUNE 30, 1956

GRAY DRUG STORES, INC.

MAIN OFFICE and WAREHOUSE • 2400 SUPERIOR AVE. • CLEVELAND, OHIO
LABORATORY • 1707 CRAWFORD RD. • CLEVELAND, OHIO

BOARD OF
DIRECTORS

OFFICERS

TRANSFER AGENT
AND REGISTRAR

AUDITORS

COUNSEL

CARLYLE W. EVANS	President, Gray Drug Stores, Inc.
HENRY H. GRAY	Vice-President, Gray Drug Stores, Inc.
CHARLES B. MERRILL	President, Merrill, Turben & Co.
GEORGE F. PRYOR	Vice-President, The Cleveland Trust Co.
JOHN W. REAVIS	Partner, Jones, Day, Cockley & Reavis
ADOLPH WEINBERGER	Chairman of the Board, Gray Drug Stores, Inc.
CARL WEINBERGER	Buyer, Gray Drug Stores, Inc.

ADOLPH WEINBERGER	Chairman of the Board
CARLYLE W. EVANS	President
HENRY H. GRAY	Vice-President
MILTON M. NEUBAUER	Vice-President
LLOYD C. DOUGLASS	Vice-President & Treasurer
LOUIS BERWITT	Secretary
ROBERT E. BREIG	Assistant Treasurer
JOSEPH VALINS	Assistant Secretary

THE CLEVELAND TRUST COMPANY	Cleveland, Ohio
ERNST & ERNST	Cleveland, Ohio
JONES, DAY, COCKLEY and REAVIS	Cleveland, Ohio

PROGRESS REPORT

TWENTY EIGHT YEAR RECORD of PROGRESS

Fiscal	Stores End of Year	Net Sales	Net Income (3)	Earnings Per Common Share (4)	Dividends Paid Per Share
1929	17	$ 1,531,636	$120,107	$1.94	$ .81
1930	21	2,136,818	88,655	1.18	.97
1931	24	2,604,609	100,482	1.30	.98
1932	26	2,547,357	87,893	1.16	1.00
1933	26	2,498,932	80,382	1.06	1.00
1934	29	3,201,663	112,408	1.49	1.00
1935 (1)	29	1,790,809	57,587	.76	.50
1936	33	4,406,753	163,774	2.05	1.05
1937	37	5,384,723	243,088	3.04	1.90
1938	38	5,374,763	132,821	1.66	1.60
1939	38	5,154,803	113,863	1.42	.50
1940	40	5,509,435	139,430	1.74	.75
1941	39	6,925,221	172,476	1.92	1.00
1942	44	7,965,870	176,651	1.96	.75
1943	43	9,135,763	193,896	2.15	.50
1944	43	9,469,467	172,278	1.91	.75
1945	78	10,003,588	175,407	1.78	1.00
1946	91	14,700,500	366,910	2.47	1.22½
1947	91	17,496,500	388,284	2.80	1.30
1948	78	16,227,105 (2)	293,263	2.11	1.30
1949	79	15,643,806	241,014	1.74	1.05
1950	77	15,283,817	281,994	2.03	.80
1951	74	16,833,818	324,702	2.32	.80
1952	80	19,268,081	250,767	1.78	1.00
1953	78	21,075,426	327,898	2.32	1.00
1954	80	22,578,421	407,643	2.85	1.00
1955	78	23,390,391	470,560	3.20	1.00
1956	81	25,543,059	576,429	3.92	1.10

(1) Six months ended June 30, 1935. Changed fiscal year from calendar year to one ending June 30.

(2) In addition to the drop in sales resulting from the sale of thirteen stores, at the beginning of this year state cigarette excise taxes are excluded from sales.

(3) Before reflecting reserves for contingencies which were restored to earnings retained in the business as of June 30, 1948.

(4) Based upon the number of shares outstanding at the end of each year, adjusted to reflect a stock split of 2 for 1 in February, 1930, and stock dividends of 3% in 1931 and 2% in 1932.

September 10, 1956

REPORT TO STOCKHOLDERS

To our Stockholders:

The results of your Company's operations for the fiscal year ended June 30, 1956 are presented to you in this report.

Net sales of $25,543,059 were again the highest in the Company's history, resulting in an increase of 9.2% as compared to the fiscal year ended June 30, 1955 when net sales were $23,390,391. Net income for the year, after deducting all charges including taxes, was $576,429, or $3.92 a share of Common Stock, as compared with $3.20 a share for the preceding year, an increase of approximately 22%. Net profit before taxes was $1,206,429, or 4.73% of net sales, as compared with $953,560, or 4.08% of net sales.

In view of increased earnings your Directors approved an increase in the quarterly dividend rate from 25c to 35c. The first dividend at the new increased rate was paid July 2, 1956. The year 1956 marks the 28th consecutive year that your Company has paid a dividend.

In previous reports, we have mentioned that it was the Company's policy to dispose of small marginal stores and to replace these with modern shopping center units. We are happy to report that this program is now completed and that no further stores are considered for disposition at this time. It is expected, however, that occasional stores will be disposed of in the future due to changing marketing areas, unfavorable leases or for other general business reasons. In addition, we have been consolidating the Company's operations primarily to the state of Ohio. As of June 30, 1947, nine years ago, the chain consisted of 91 units, six in New York state, and 19 in Pennsylvania. At the close of this fiscal year we had 81 stores, all in Ohio except one in Bradford, Pennsylvania. Of the total, 39 are located in what we term modern shopping centers. Average volume for all stores in operation during the full fiscal year 1947 was $196,786, while the average volume of all stores in operation during the full fiscal year 1956 was $331,417. On the last page of this report there is an outline map of Ohio indicating the cities in which we have one or more stores in operation or under construction.

During the past year six new shopping center stores were opened, two in Columbus, and one each in Wooster, Ashtabula, Mansfield and Springfield, and one store was purchased in Cleveland. Four small stores were disposed of, two in Cleveland and one each in Columbus and Bradford, Pennsylvania. For the present year we expect to open eight new shopping center stores. Included are our first units in Hamilton and Cincinnati (opened in July and August) and Chillicothe and Willoughby. The other four stores will expand our coverage in Sandusky, Warren, Mansfield and Youngstown. Leases have also been made for nine additional Ohio shopping center stores to be installed after June 30, 1957. For this year we plan to remodel and refixture six units. Our program to air condition the stores has continued and it is expected that all stores will be air conditioned by the end of this fiscal year.

Due to the continued past growth and the expected future growth of the Company it is necessary to expand our warehouse and office. A 17,000 square foot second floor is being added to the warehouse annex building, which upon completion will in part house the general office. The present space occupied by the general and executive offices will be expanded, rearranged and air conditioned to provide additional and improved facilities.

The cooperation and efficiency of our employees and the continued loyalty of our stockholders and customers has made this our very best year. To them all, and to our Directors whose counsel has been most helpful, we extend our sincere appreciation.

Respectfully,

Adolph Weinberger

CHAIRMAN OF THE BOARD

PRESIDENT

NEW STORES...

NEW UNITS ON THESE PAGES, IN BUSY THRIVING SHOPPING CENTERS, SYMBOLIZE GRAYS CONSTANT GROWTH

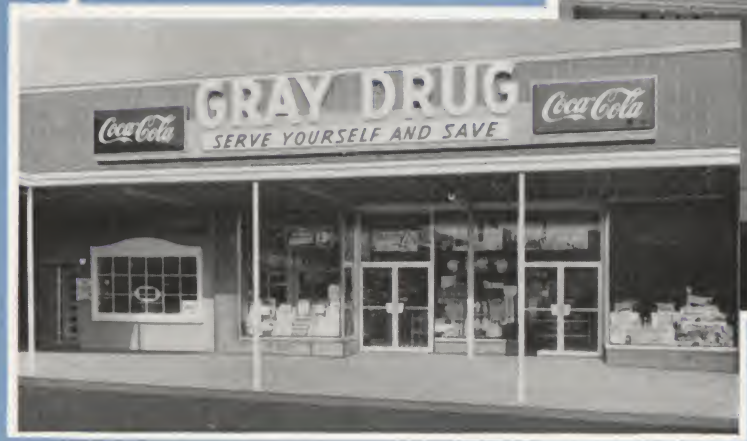
GRAY DRUG STORE
3378 North Blvd.
Columbus, Ohio

GRAY DRUG STORE
882 Hamilton Road
Columbus, Ohio

GRAY DRUG STORE
2203 Lake Avenue
Ashtabula, Ohio

GRAY DRUG STORE
1845 Beall Avenue
Wooster, Ohio

GRAY DRUG STORE
1178 Park Avenue, West
Mansfield, Ohio



GRAY DRUG STORE
1637 Selma Road
Springfield, Ohio

Dutch Oven

RESTAURANTS

GRAY DRUG STORE
3378 North Blvd.,
Columbus Ohio
(showing separate entrance for Dutch Oven Restaurant)

GRAY DRUG STORE
1637 Selma Road,
Springfield, Ohio

Gray's new "Dutch Oven" restaurants keep pace with rapidly changing shopping trends. Separated units within our stores, they are designed and decorated in early New England character with a quaint tea room atmosphere. Mrs. Housewife may stop for either a snack, or to bring the entire family in for a delicious, complete dinner.

ACCOUNTANT'S REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated financial statements of Gray Drug Stores, Inc. and subsidiaries for the year ended June 30, 1956. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and earnings retained for use in the business present fairly the consolidated financial position of Gray Drug Stores, Inc. and subsidiaries at June 30, 1956, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 27, 1956

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash			$ 1,444,912
Accounts receivable, less allowance of $10,000			119,091
State tax stamps			82,965
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$ 3,250,764	
At warehouse		1,452,813	
At laboratory		29,720	
		$ 4,733,297	
In transit		172,978	4,906,275
TOTAL CURRENT ASSETS			**$6,553,243**
OTHER ASSETS			92,312
FIXED ASSETS—at cost			
Furniture and fixtures	$ 2,561,261		
Leasehold improvements	1,643,855	$ 4,205,116	
Less allowances for depreciation and amortization		1,911,300	2,293,816
PATENTS AND TRADE-MARKS			1
DEFERRED CHARGES			129,736
			$9,069,108

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Portion of long-term debt due within one year		$ 159,286
Accounts payable and accrued expenses:		
Trade accounts and sundry accrued items	$ 1,602,560	
Salaries, wages, and commissions	356,388	
Payroll taxes and taxes withheld from employees	101,506	
Taxes other than federal taxes on income	133,295	
Rent and interest	150,866	2,344,615
Federal taxes on income—estimated		660,115
TOTAL CURRENT LIABILITIES		**$3,164,016**

LONG-TERM DEBT

Note payable to insurance company — Note A	$ 917,840	
Less portion classified as current	159,286	758,554

SHAREHOLDERS' EQUITY

Capital stock, par value $1 a share — Note B:		
Authorized—165,000 shares Outstanding—146,925 shares	$ 146,925	
Capital in excess of par value—no change during the year	1,913,797	
	$ 2,060,722	
Earnings retained for use in the business—Note A	3,085,816	5,146,538

CONTINGENT LIABILITY

On note receivable (from sale of store) sold to bank—$21,981

$ 9,069,108

See notes to financial statements.

STATEMENT OF CONSOLIDATED EARNINGS RETAINED FOR USE IN THE BUSINESS

GRAY DRUG STORES, INC. AND SUBSIDIARIES • Year ended June 30, 1956

Balance at July 1, 1955		**$ 2,671,005**
Net income for the year		576,429
		$ 3,247,434
Cash dividends declared:		
$.25 a share paid October 1, 1955	$ 36,732	
$.25 a share paid January 3, 1956	36,731	
$.25 a share paid April 2, 1956	36,731	
$.35 a share paid July 2, 1956	51,424	161,618
BALANCE AT JUNE 30, 1956		**$3,085,816**

See notes to financial statements.

STATEMENT OF CONSOLIDATED INCOME

GRAY DRUG STORES, INC. AND SUBSIDIARIES • Year ended June 30, 1956

NET SALES	**$ 25,543,059**
Cost of goods sold	15,804,870
	$ 9,738,189
Other operating income	99,380
	$ 9,837,569
Selling, general, and administrative expenses	8,630,406
	$ 1,207,163
Other income	37,778
	$ 1,244,941
Interest expense	38,512
INCOME BEFORE FEDERAL TAXES ON INCOME	**$ 1,206,429**
Federal taxes on income—estimated	630,000
NET INCOME	**$ 576,429**

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC. AND SUBSIDIARIES • Year ended June 30, 1956

NOTE A

The loan agreement provides for interest at the rate of 3¾ per cent per annum, for repayment in semiannual installments of $50,000 and for additional payments each year to the extent of 20 per cent of the excess of consolidated net income for the preceding year over $280,000 ($59,286 will be due on November 1, 1956, under such requirement); however, the additional payment shall not exceed $100,000 in any year. The agreement includes, among other things, certain provisions relating to the maintenance of consolidated net current assets and certain restrictions on the payment of dividends. Accordingly, consolidated earnings retained for use in the business available for dividends amounted to $1,389,227 at June 30, 1956.

NOTE B

15,000 shares of capital stock are subject to stock options granted by the Company to certain officers and key employees (three of whom are directors) exercisable at any time between two years and five years from May 24, 1955. The option price is $16.37½ per share, which represents the quoted market value at May 24, 1955, except that the option price for two employees (related to principal shareholder) is $18.70 per share to permit qualification as a restricted stock option. The aggregate option price of all shares is $253,995.

NOTE C

The Company deposited funds with dividend disbursing agent on June 28, 1956, for payment of the dividend payable July 2, 1956.

NOTE D

The companies were lessees at June 30, 1956, under a number of leases extending from one to twenty years. The aggregate annual minimum rental payable (many of such leases provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $1,100,000.

NOTE E

Allowances for depreciation and amortization aggregated $451,573 for the year.

NOTE F

Total contributions under the pension plan for employees of the companies amounted to approximately $112,000 for the year ended June 30, 1956, including amortization of cost of past service benefits to retirement age of participants. At June 30, 1956, the unfunded cost of past service benefits amounted to approximately $35,000.

GRAY DRUG STORES, INC.

OPERATING EIGHTY-ONE STORES

locations shown on map below:

● *Stores in operation at present . . .*

○ *Stores not yet in operation . . .*

1956